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INTRODUCTION

The Office of Internal Audit performed an audit of Kalamazoo County FIA for the period October 1, 1998 through March 16, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Kalamazoo County FIA had 226 full time equated positions (FTE's) at the time of our review. Kalamazoo County FIA provided assistance to an average 16,160 recipients per month during FY 1998, with total assistance payments of \$24,600,044 during that year.

SCOPE

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Kalamazoo County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Medical Transportation	Telephone Usage
Client Processing	CIS/ASSIST
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Mail Issuance	Modified Accrual Balance Sheet
Payroll	

EXECUTIVE SUMMARY

Based on our audit, we concluded that the Kalamazoo County FIA internal controls were not adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found numerous instances of noncompliance with FIA policies and procedures, many of which affect the office's internal control structure. We also noted instances where deficiencies included in our prior audit report issued in April, 1995 had not been corrected.

Because controls were not adequate, we performed a follow-up review at Kalamazoo County FIA on May 4, 1999. Based on our follow-up review, we concluded that Kalamazoo County FIA's controls are now generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization.

LOCAL OFFICE RESPONSE

The management of Kalamazoo County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated August 3, 1999 that they are in general agreement with the report. They are continuing to work with the zone accountant on their bank reconciliation and modified accrual basis balance sheet. For finding number 10 they indicated that they are unable to restrict CIS and ASSIST access for FIM's at the present time, but will consider that change in the future if the ASSIST system becomes less cumbersome and more user friendly.

FINDINGS AND RECOMMENDATIONS - COMPLIANCE

The following are areas where we found that the Kalamazoo County FIA was not operating in accordance with FIA policies and procedures that are prescribed in manuals or instructional letters.

Supporting Documentation for FIA-849 Payments

1. Kalamazoo County FIA did not always attach supporting documentation to the FIA-849 on file in the Accounting Office, as required by Accounting Manual Item 404. An invoice or other supporting documentation was not attached for 27 of the 64 payments we reviewed. Attaching invoices to the Accounting Office copy of the FIA-849 helps ensure that all FIA-849 payments are accurate and appropriate.

WE AGAIN RECOMMEND that Kalamazoo County FIA attach a copy of the invoice or other supporting documentation to the Accounting Office copy of the FIA-849.

FOLLOW-UP: Kalamazoo County is now in compliance with the recommendation.

Supporting Documentation for FIA-13 Payments

2. Kalamazoo County FIA did not attach supporting documentation to the copy of the Supplemental Payment Authorization (FIA-13) maintained in the fiscal office. Also we noted that there was no supporting documentation attached to the FIA-13 for 38 of 1060 supplemental payments issued for 1998. We also found only six of 17 case files we reviewed had supporting documentation for the FIA-13. Supporting documentation helps to ensure that payments are accurate and appropriate.

WE RECOMMEND that Kalamazoo County FIA retain supporting documentation attached to the FIA 13.

FOLLOW-UP: Kalamazoo County is now in compliance with the recommendation.

Bank Reconciliation

3. Kalamazoo County FIA did not properly complete the bank reconciliation, as required by Accounting Manual Item 405. The bank reconciliation had been out of balance since May 31, 1998. Also the amount shown as cash-in-bank did not agree with the bank statement. Proper completion of the Bank Reconciliation, including correction of any discrepancies, helps to ensure that the local office's account balance is correctly stated.

WE RECOMMEND that Kalamazoo County FIA properly prepare the Bank Reconciliation, follow-up on any discrepancies, and correct the balance on a timely basis so that subsequent bank reconciliations will not be affected.

FOLLOW-UP: Kalamazoo County FIA is working with the Zone Accountant to correct the balance.

Monthly Closing of Books

4. Kalamazoo County FIA was not closing its books each month, as required by Accounting Manual Item 402. Books for 1997 were not closed until November, 1998. As of January 31, 1999, the books for 1998 were still open. Closing the books at the end of each month helps ensure accuracy of the records and prevents unauthorized transactions from being entered at a later date to avoid detection.

This is a repeat finding from our prior audit.

WE AGAIN RECOMMEND that Kalamazoo County FIA close its books each month when the monthly reports are prepared.

FOLLOW-UP: Kalamazoo County FIA is now in compliance with the recommendation.

Reconciliation of Cash with County Treasurer

5. Kalamazoo County FIA did not reconcile its Asset Account 001 (Cash with County Treasurer) to the County Treasurer's cash account for the Child Care Fund each month, as required by Accounting Manual Item 402. Prompt reconciliation of this account balance would detect any discrepancies, and facilitate needed corrections.

WE RECOMMEND that Kalamazoo County FIA reconcile its Cash with County Treasurer Account Child Care Fund to the County Treasurer's records each month.

FOLLOW-UP: Kalamazoo County FIA is now in compliance with the recommendation.

Modified Accrual Basis Balance Sheet

6. Kalamazoo County FIA had not completed the Modified Accrual Basis Balance Sheet as required by Accounting Manual Item 402.3 since September, 1998. In addition, the Modified Accrual Basis Balance Sheets completed prior to September, 1998 were not prepared in accordance with the Accounting Manual Item 402.3 instructions. The Modified Accrual Basis Balance Sheets contained errors including the following:

- a. the County Equity on the Balance Sheet did not agree with the County Equity on the Change in County Equity form
- b. the ES Contract was not included on the Balance Sheet
- c. County appropriations were not included
- d. the listing of the Balance Sheet accounts created a negative county equity. The local office accounting supervisor, however, indicated that the County Equity should be positive, based upon her monthly accounting control reports.

Proper completion of the Modified Accrual Basis Balance Sheet is necessary to properly state the local office's cash position.

This is a repeat finding from our prior audit.

WE AGAIN RECOMMEND that Kalamazoo County FIA prepare the Modified Accrual Basis Balance Sheets in accordance with the Accounting Manual item 402.3 instructions.

FOLLOW-UP: Kalamazoo County FIA is working with the Zone Accountant to properly state the local office's position.

Trial Balance

7. The Kalamazoo County FIA Trial Balance had been out of balance since September, 1997. Accounting Manual Item 402 requires the trial balance be in balance to ensure that all transactions were properly posted.

WE RECOMMEND that the Kalamazoo County FIA make the appropriate adjustments/corrections to balance the trial balance.

FOLLOW-UP: Kalamazoo County FIA is now in compliance with the recommendation

RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS

The following are areas where we have identified a control weakness at Kalamazoo County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

Client Mail

8. Kalamazoo County FIA received personal mail for clients who used the local office as their post office. For internal control reasons, the local office should not serve as a post office for clients.

WE RECOMMEND that Kalamazoo County FIA discontinue serving as a post office for clients who use the local office as their address.

FOLLOW-UP: Kalamazoo County is now in compliance with the recommendation.

Backup Designated Staff Person

9. Kalamazoo County FIA did not have a backup Designated Staff Person (DSP) for IRS Security. The local office should have a backup DSP in case information is received on a day when the DSP is out of the office.

WE RECOMMEND that Kalamazoo County FIA appoint a backup DSP for IRS information security.

FOLLOW-UP: Kalamazoo County FIA is now in compliance with the recommendation.

CIS/ASSIST Status Codes

10. One fiscal clerk had FLM status on CIS. The combination of fiscal clerk and FLM status would allow the fiscal clerk to make changes to client cases and then process payments to those cases. We also found that six Family Independence Managers (FIM) had FIS status on CIS as well as Job Type 360 on ASSIST. This combination would allow the FIM to register cases and process case transactions without an independent review. Two of the six FIM's identified above also had both a 270 Job Type (FIS) and a 280 Job Type (FIM) for ASSIST. This combination would allow the FIM to process case transactions without an independent review.

WE RECOMMEND that the fiscal clerk and the FIM's be changed to inquiry only status on CIS.

WE ALSO RECOMMEND that Job Types 270 and 360 be removed from the Family Independence Managers.